

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL EIGHT)

Docket No. RM2017-12

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO QUESTION 2 OF COMMISSION INFORMATION REQUEST NO. 1**
(January 3, 2018)

The United States Postal Service hereby provides its response to Question 2 of Commission Information Request No. 1, issued December 14, 2017. The questions are stated verbatim and followed by the response. The response to Question 1 was filed on December 21, 2017, and Order No. 4298 (December 26, 2017) extended the response deadline for Question 2 until tomorrow, January 4, 2018.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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2. Please clarify whether the Postal Service plans to implement the changes proposed in this docket over more than 1 year. Petition at 5. If so, please provide the anticipated phasing schedule for implementation.

RESPONSE:

Within one rate cycle (normally, within one year), the Postal Service believes that trying to require immediate compliance with the 60 percent target ratio, if the standard by which compliance would be measured were to change from the class level to the subclass level, may not be either desirable or practicable if compliance were to result in rate shock. To avoid the unnecessary disruption associated with the transition that could occur if rate shock ensued, the Postal Service would prefer to phase the change in over multiple rate cycles. As one possible example of a multiple-cycle process, consider a three-cycle transition. Under such a plan, the intent would be that in the third rate cycle following adoption of the change in application standard (again, thus normally within three years), each subclass would have the estimated average revenue per piece for nonprofit mail set as nearly as practicable to 60 percent of the estimated average revenue per piece of the corresponding commercial subclass. In other words, in three years, the full 60 percent target ratio would be in effect for each subclass.

In order to have as smooth a transition as possible to that objective, in each interim rate cycle, the actual before-rates ratio of average revenue per piece would be calculated for each subclass, and thus the difference for that year between that ratio and the full 60 percent target would be determined. In the first rate cycle, still using a three-cycle transition as one possible example, the "interim target" deemed to be

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tentatively practicable for each subclass would be set at 60 percent minus $\frac{2}{3}$ of the difference. In that cycle, the goal would be to have the ratio for each subclass meet the “interim target” for that subclass as nearly as practicable. Then, in the second cycle, the difference would be recalculated using the most recent data, and the “interim target” would be set at 60 percent minus one-half the recalculated difference. By the third cycle, the target would be up to the full 60 percent. This would facilitate the smoothest possible transition, while allowing for recalibration at each step of the process in order to accommodate unforeseen deviations caused by any number of possible exogenous factors.

Obviously, the same logic could be applied to develop a similar phasing schedule if the selected number of interim rate cycles were only one (i.e., a two-cycle plan). To be clear, a three-cycle plan is used here merely as an example, but either a shorter or perhaps slightly longer transitions might also work if the Commission were so inclined.

A caveat to this type of a phased transition should be noted, however. In following the type of procedure laid out above, depending on how events unfold, a year could arrive in which the “interim target” for one or both subclasses would not be materially different from the full 60 percent. Once the “interim” target (determined on a before-rates basis) for a subclass reaches a level sufficiently close to 60 percent (for example, 59.5 percent), it would seem reasonable to terminate phasing for that subclass and revert in that year and all future years to the full 60 percent. Similarly, if the before-rates situation were ever such that the tentative “interim target” for either subclass were above 60 percent, that would also terminate the phasing process for that

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subclass. The target could thus never be above the statutory 60 percent level. But early termination of the phasing process for one subclass would not impede potential continuation of the process for the other subclass, as each subclass would always be evaluated separately each year.